

CHIPPEWA COUNTY HEALTH DEPARTMENT

BASIC FINANCIAL STATEMENTS

September 30, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name <u>Chippewa County Health Department</u>		County <u>Chippewa County</u>
Audit Date <u>September 30, 2004</u>		Opinion Date <u>November 19, 2004</u>		Date Accountant Report Submitted to State: <u>February 28, 2005</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) <u>Anderson, Tietman & Company, PC</u>			
Street Address <u>16978 S. Rolly Ave.</u>		City <u>Kinchebe</u>	State <u>MI</u>
Accountant Signature <u>Anderson Tietman & Co PC</u>		ZIP <u>49788</u>	

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Health
Chippewa County Health Department
Sault Ste. Marie, Michigan 49783

We have audited the accompanying financial statements of the governmental activities and the major fund of the Chippewa County Health Department (a component unit of Chippewa County, Michigan), as of and for the year ended September 30, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the Health Department's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Chippewa County Health Department, as of September 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2004 on our consideration of the Health Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparisons as listed in the Table of Contents are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of expressing an opinion on the basic financial statements taken as a whole. The individual departmental statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson Tackman & Co PLC

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 19, 2004

Management's Discussion and Analysis

This section of the Health Department's annual financial report presents our discussion and analysis of the Health Department's financial performance during the fiscal year ended September 30, 2004. Please read it in conjunction with the Health Department's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The Health Department saw a significant increase in demand for Home Health & Hospice services during fiscal 2004. This increase in demand assisted the Department in maintaining other services for which funding has stagnated. Much of the funding received from the State of Michigan, most notably the LPHO funding, has not increased for several years. The result is a lesser amount of real dollars available to sustain mandated programs in both Environmental Health and Personal & Family Health due to inflation factors. Budgetary concerns at the County level, largely the result of the loss of revenue sharing dollars from the State, have also resulted in decreased general appropriations to the Health Department. This situation is anticipated to continue in the foreseeable future.

The Health Department has received increased State grant funding in a couple of Personal & Family Health programs such as family planning, mainly through an expansion in the number of people served. The Tobacco Reduction program received an additional \$10,000 in funding during fiscal 2004 related to development and promotion of the County's Clean Indoor Air Ordinance. For fiscal 2005, the State has significantly increased funding for Children's Special Health Care Services but has de-funded the HIV program as of December 31, 2004.

The Health Department has also made efforts to expand its funding and scope of services to the community through several new grant programs. Included in these for fiscal 2004 and 2005 are the March of Dimes grant and the SIG grant. In 2005, the Department is also the recipient of a substance abuse prevention grant through Pathways and a one-year colorectal cancer screening grant through the Michigan Health Institute.

The Federal Office of Homeland Security continues to provide significant funding through the Michigan Department of Community Health for Public Health Emergency Preparedness. This funding hit its anticipated peak in fiscal 2004 and will decline by approximately \$45,000 in fiscal 2005.

The Medicare rural health add-on funding for Home Health services was renewed in fiscal 2004 but is again scheduled to be discontinued as of April 1, 2005 unless legislation is passed to extend this program.

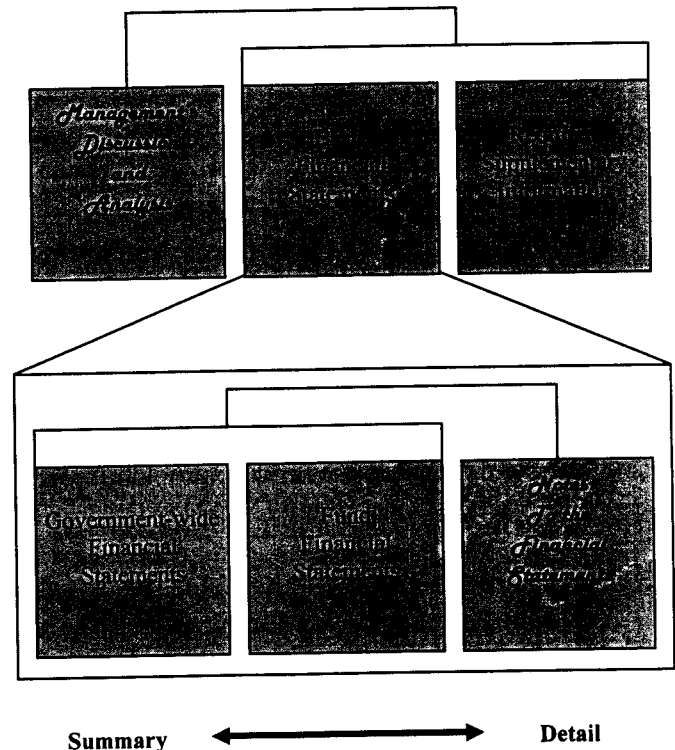
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Health Department.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

**Figure A-1
Required Components of the
Health Department's Annual Financial Report**

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Health Department's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Health Department's operations, reporting the Health Department's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how government services like Health and Welfare were financed in the short-term as well as what remains for future spending.



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with individual statements that provide details about our individual divisions of the Health Department each of which are added together and presented in single columns in the basic financial statements. Figure A-2 summarizes the major features of the Health Department's financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

**Figure A-2
Major Features of Health Department's Government-wide and Fund Financial Statements**

	<u>Government-wide Statements</u>	<u>Fund Statements Governmental Funds</u>
Scope	Entire Health Department government (except fiduciary funds)	The activities of the Health Department that are not associated with the general fund and special funds and welfare
Required financial	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurements focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during year regardless of when cash is received or paid	Revenues that are received during or soon after the end of the year, and expenditures that are paid or incurred during the year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the Health Department as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The two government-wide statements report the Health Department's net assets and how they have changed. Net assets – the difference between the Health Department's assets and liabilities – is one way to measure the Health Department's financial health, or position.

- Over time, increases or decreases in the Health Department's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Health Department you need to consider additional nonfinancial factors such as changes in the federal and state funding and the condition of the economy.

The government-wide financial statements of the Health Department are:

- Governmental activities – Most of the Health Department's basic services are included here, such as Public Health, Home Health, and Environmental Health programs.

Fund Financial Statements

The fund financial statements provide more detailed information about the Health Department's most significant funds-not the Health Department as a whole. Funds are accounting devices that the Health Department uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Chippewa County Health Department Board establishes other funds to control and manage money for particular purposes.
- Governmental funds – All of the Health Department's basic services are included in governmental funds, which focus on (1) how much cash and other financial assets that can readily be converted to cash flow in and out and (2) The balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Health Department's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE HEALTH DEPARTMENT AS A WHOLE

Net assets. The Health Department's combined assets increased by 13% between fiscal years 2003 and the year ended 2004 to \$2.556 million. (See Table A-1.)

Table A-1
Health Department's Net Assets

	Governmental Activities	
	2004	2003
Current and other assets	\$ 2,441,867	\$ 2,197,009
Capital assets	114,874	60,871
Total assets	2,556,741	2,257,880
Current liabilities	927,461	652,834
Long-term debt outstanding	29,591	282,773
Total liabilities	957,052	935,607
Net assets		
Invested in capital asset, net of related debt	54,733	21,576
Unrestricted	1,544,956	1,300,697
Total net assets	\$ 1,599,689	\$ 1,322,273

Net assets of the Health Department's governmental activities increased 21 percent or \$277,416. \$1.5 million of assets are not restricted as to the purposes for which they can be used. The remaining \$54,733 are invested in capital assets.

Changes in net assets. The Health Department's total revenues increased by 12.53 percent to \$5.03 million. (See Table A-2.) A majority of the Health Department's revenue (71.84%) comes from fees and collections.

The total cost of all primary activities increased 10.8 percent. The Health Department's expenses cover salaries, fringes, supplies, debt payments, and other expenses.

Table A-2 and the narrative that follows consider the operations of governmental-type activities.

Governmental Activities

Table A-2
Changes in Health Department's Net Assets

	Governmental Activities	
	2004	2003
Program Revenue		
Fees and Collections	\$ 3,614,286	\$ 3,130,341
Other Sources	68,366	141,806
State Sources	760,181	527,574
State Cost Sharing	279,554	280,613
Cost Settlements	142,107	156,791
Contracts and Reimbursements	165,900	232,909
Total Program Revenues	5,030,394	4,470,034
Program Expenses		
Health and Welfare	4,920,740	4,440,477
Total Program Expenses	4,920,740	4,440,477
Net Program Revenues	109,654	29,557
General Revenue		
County Appropriations	167,762	205,549
Increase (decrease) in net assets	\$ 277,416	\$ 235,106

FINANCIAL ANALYSIS OF THE HEALTH DEPARTMENT'S FUNDS

As the Health Department completed the year, its governmental funds reported a fund balance of \$1.5 million. The primary reasons for the increase in fund balance is highlighted in the financial analysis of the Health Department.

Chippewa County Health Department

Management's Discussion and Analysis
September 30, 2004

Governmental Fund Revenues and Expenditures

Operating revenues for the Health Department increased by 12.54% and operating expenditures for the Health Department's governmental funds increased 13.31%.

Table A-3
Changes in Health Department's Fund Balance

	Governmental General Operating Fund		Total Percentage Change
	2003	2004	2003-2004
Revenues			
Fees and Collections	\$ 3,130,341	3,614,286	15.46 %
Other Funding	141,806	68,366	(51.79)%
State Sources	527,574	760,181	44.09 %
State-Cost Sharing	280,613	279,554	(.38)%
Cost Settlement	156,791	142,107	(9.37)%
Contracts and Reimbursements	232,909	165,900	(28.77)%
Total Revenues	4,470,034	5,030,394	12.54 %
Expenditures			
Health and Welfare	4,417,126	5,004,919	13.31 %
Total Expenditures	4,417,126	5,004,919	13.31 %
Excess of Revenues Over (Under) Expenditures	52,908	25,475	(51.85)%
Lease Proceeds	-	51,022	100 %
County Appropriations	205,549	167,762	(18.39)%
Excess Revenues and Other Financial Sources Over Expenditures	\$ 258,457	\$ 244,259	(5.50)%

General Fund Budgetary Highlights

Revenue in the general fund exceeded budgeted amounts for fees, collections and reimbursements due to increased service volumes. Capital lease proceeds also increased the positive variance.

General Fund Budgetary Highlights (Continued)

Other budgeted line items varied in reasonable amounts from appropriated amounts. Over the course of the year the Health Board amended the General Fund budget to reflect adjustments in revenues and expenditures that developed in the year.

CAPITAL ASSETS

At the end of 2004, the Health Department had invested \$115 thousand in capital assets, including furniture, equipment, and vehicles. (See Table A-4.) This amount presents a net increase (including additions and deductions) of \$54,003 or 89 percent, over last year.

Table A-4
Health Department's Capital Assets
(net of depreciation)

	<u>Governmental Activities</u>		<u>Total Percentage Change 2003-2004</u>
	<u>2003</u>	<u>2004</u>	
Equipment and furniture	\$ 15,790	\$ 101,629	544 %
Vehicles	<u>45,081</u>	<u>13,245</u>	<u>(71)%</u>
Totals	<u>\$ 60,871</u>	<u>\$ 114,874</u>	<u>89 %</u>

The principle change in capital assets consists mainly of computer equipment purchases. More detailed information about the Health Department's capital assets is presented in Note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In adopting the general fund budget for fiscal year 2005, the Health Department considered the budgetary problems within the State of Michigan and their likely effects on grant funding, revenue sharing to the County and Medicaid payment rates. Planned decreases in Medicare payments for Home Health services were also considered.

CONTACTING THE HEALTH DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, regulators and creditors with a general overview of the Health Department's finances and to demonstrate the Health Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chippewa County Health Department in Sault Ste. Marie, MI 49783.

Basic Financial Statements

Chippewa County Health Department

Statement of Net Assets September 30, 2004

	Governmental Activities
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	
Unrestricted	\$ 1,223,699
Restricted	290,495
Accounts Receivable (net)	685,870
Due From Other Governments	208,744
Prepaid Expenses	33,059
Total Current Assets	2,441,867
Capital Assets: (Note F)	
Equipment & Furniture (net)	101,629
Vehicles (net)	13,245
Total Non-current Assets	114,874
Total Assets	\$ 2,556,741
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 158,928
Accrued Payroll and Related Liabilities	208,276
Due to Other Governmental Units	62,854
Other Liabilities	19,655
Deferred Revenue	203,211
Capital Leases (Note M)	30,551
Compensated Absences	243,986
Total Current Liabilities	927,461
Non-current Liabilities:	
Capital Leases (Note M)	29,591
Total Liabilities	957,052
NET ASSETS:	
Invested in Capital Assets, net of related debt	54,733
Unrestricted	1,544,956
Total Net Assets	1,599,689
Total Liabilities and Net Assets	\$ 2,556,741

The Notes to Financial Statements are an integral part of this statement.

Chippewa County Health Department

Statement of Activities Year Ended September 30, 2004

Program Expenses	
Health & Welfare	\$ 4,920,740
Total Program Expenses	4,920,740
Program Revenues	
Fees & Collections	3,614,286
Other Funding	68,366
State Sources	760,181
State Cost Sharing	279,554
Cost Settlements	142,107
Contracts & Reimbursements	165,900
Total Program Revenues	5,030,394
Net Program Revenues	109,654
General Revenue	
County Appropriations	167,762
Change in Net Assets	277,416
Net Assets	
Beginning of Year	1,322,273
End of Year	\$ 1,599,689

The Notes to Financial Statements are an integral part of this statement.

Chippewa County Health Department

Balance Sheet
September 30, 2004

ASSETS

Cash and Equivalents - Unrestricted	\$ 1,223,699
Cash and Equivalents - Restricted	290,495
Accounts Receivable	685,870
Due From Other Governmental Units	208,744
Prepaid Expenditures	33,059
Total Assets	<u>\$ 2,441,867</u>

LIABILITIES AND FUND EQUITY

Liabilities

Accounts Payable	\$ 158,928
Accrued Liabilities	208,276
Due to Other Governmental Units	62,854
Other Liabilities	19,655
Deferred Revenues	203,211
Compensated Absences	243,986
Total Liabilities	<u>896,910</u>

Fund Equities

Fund Balance	
Unreserved	
Undesignated	1,460,876
Designated	84,081
Total Fund Equities	<u>1,544,957</u>
Total Liabilities and Fund Equities	<u>\$ 2,441,867</u>

The Notes to Financial Statements are an integral part of this statement.

Chippewa County Health Department

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2004

Total Governmental Fund Balance	\$ 1,544,957
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	114,874
Present value of minimum lease payments are not available to pay for current period expenditures and therefore are not reported in the funds. (See Note M)	<u>(60,142)</u>
Net Assets of Governmental Activities	<u>\$ 1,599,689</u>

The Notes to Financial Statements are an integral part of this statement.

Chippewa County Health Department

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended September 30, 2004

	General Operating Fund
Revenues	
Fees and Collections	\$ 3,614,286
Other Funding	68,366
State Sources	760,181
State-Cost Sharing	279,554
Cost Settlement	142,107
Contracts & Reimbursements	165,900
Total Revenues	<u>5,030,394</u>
Expenditures	
Health & Welfare	<u>5,004,919</u>
Excess Revenue (Expenditures) before Other Financing Sources	25,475
Other Financing Sources:	
Lease Proceeds	51,022
County Appropriations	<u>167,762</u>
Total Other Financing Sources	<u>218,784</u>
Excess Revenues and Other Financing Sources Over Expenditures	244,259
Fund Balance - October 1, 2003	<u>1,300,698</u>
Fund Balance - September 30, 2004	<u><u>\$ 1,544,957</u></u>

The Notes to Financial Statements are an integral part of this statement.

Chippewa County Health Department

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities For the Year Ended September 30, 2004

Net Change in Fund Balance – Total Governmental Funds \$ 244,259

Amounts reported for governmental activities in the statements are different
because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$85,679) exceeded depreciation (\$31,676) in the current period. 54,003

Governmental funds report lease proceeds as other financing sources and principal payments as expenditures. This is the amount by which lease proceeds (\$51,022) exceeded principal payments (\$30,176) during fiscal 2004. (20,846)

Change in Net Assets of Governmental Activities \$ 277,416

The Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES:

The accounting policies of the Chippewa County Health Department, (the "Health Department") conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Health Department's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Health Department's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

The Chippewa County Health Department is a Blended Component Unit of the County of Chippewa, Michigan, the purpose of which is to provide limited health services to the residents of Chippewa County. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise the fund's assets, liabilities, fund equity, revenues and expenditures. The County Board appoints five members to the Health Board of which two are Commissioners and three members are from the public.

2. Basis of Presentation – Government-Wide Financial Statements – The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange are recognized in accordance with Governmental Accounting Standards Board Statement 33.

The statement of net assets and the statement of activities display information about the Health Department as a whole. The statements include all funds of the Department.

Capital assets are reported in the government-wide statements at historical cost. Capital assets include land, improvements to land, buildings, building improvements, vehicles, machinery and equipment, infrastructure and all other tangible or intangible assets that are used in operations and have initial useful lives beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES: (Continued)

Capital assets that are depreciated are reported net of accumulated depreciation in the statement of net assets. Capital assets that are not depreciated, such as land, are reported separately.

Capital assets are depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities by allocating the net cost over the estimated useful life of the asset. Assets are depreciated on an individual basis for equipment and buildings.

The government-wide focus is more on the sustainability of the Health Department as an entity and the change in the Health Department's net assets resulting from the current year's activities.

3. Basic Financial Statements – Fund Financial Statements – The financial transactions of the Health Department are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Health Department:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Health Department.

The General fund is the general operating fund of the Health Department. It is used to account for all financial resources except those required to be accounted for in another fund.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category of the governmental and enterprise combined) for the determination of major funds. The Health Department selected the General Fund as a Major Fund.

4. Measurement Focus and Basis of Accounting – Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES: (Continued)

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Vehicles	3 years
Furniture and equipment	5 years

Compensated Absences

The Health Department accrues vested or accumulated sick and vacation leave when earned by the employee.

Full Accrual Accounting Method

The governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES: (Continued)

The Health Department reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Health Department before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Cash and Investments

Investments are reported at fair value, based on quoted market prices. All deposits are carried at cost. Cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three month or less.

Prepaid Items

Payments made to vendors for insurance and rent that will benefit future periods are recorded as prepaid items. All other payments made to vendors for services that will benefit future periods are recorded as expenditures. These payments do not have a material affect on the financial statements.

Annual Budget

The Health Department adopts an annual budget each year for expenditures applicable to the General Fund. The operating budget includes proposed expenditures and the means of financing them is stated on a basis consistent with U.S. generally accepted accounting principles (GAAP). Budgets lapse at fiscal year end.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Chippewa County Health Department

Notes to Financial Statements
September 30, 2004

NOTE B - CASH

The balance sheet accounts and types of cash items are presented below:

Cash and equivalents - unrestricted	\$ 1,223,699	Petty cash	\$ 350
- restricted	290,495	Demand deposits -	
		savings and checking	1,513,844
TOTALS	\$ 1,514,194		\$ 1,514,194

Deposits – At year-end, the carrying amount of the Health Department's deposits was \$24,430 and the bank balance was \$142,092. Of the bank balance, \$100,000 was covered by federal depository insurance according to FDIC regulations.

With respect to the demand deposits, \$1,489,414 of the \$1,513,844 listed above is held with the County Treasurer and pooled with the cash of several other County funds, and is insured by the Federal Deposit Insurance Corporation (FDIC). Cash has been restricted for the purpose of future continuing public health education, capital outlays and specific program long-term support. These deposits are in financial institutions located in Sault Ste. Marie, Michigan in varying amounts. Interest is recorded in the month in which it is earned.

NOTE C - INVESTMENTS:

Statutory Authority

Michigan law (Public Act 20 of 1943, as amended) authorizes the Chippewa County Health Department to deposit and invest in one or more of the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in a.
- (e) Bankers' acceptances of United States banks.

NOTE C - INVESTMENTS: (Continued)

- (f) Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (h) Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- (j) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Board of Directors is authorized to designate depositories for CCHD funds, and funds are invested in accordance with State of Michigan statutory authority.

NOTE D - EMPLOYEE RETIREMENT:

Plan Description - Chippewa County Health Department of Chippewa County, Michigan participates in two statewide government agent multiple-employer public employee pension plans which cover substantially all employees, including employees of the Chippewa County Health Department. Non-union employees are covered under a B-3 plan and union employees are covered under a B-2 plan. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 447 North Canal Street, Lansing, Michigan.

Funding Policy - The obligation to contribute and maintain the system for these employees was established by negotiation with the Health Department's competitive bargaining units and personnel policy, which require employees to contribute based on gross wages by the Health Department only.

NOTE E - DEFINED BENEFIT PENSION PLAN:

Annual Pension Costs – For year ended 2004, the Health Department's annual pension cost of \$111,176 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as of December 31, 2002, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2003 is as follows:

	2001	2002	2003
Actuarial Value of Assets	\$ 5,277,215	\$ 5,489,584	\$ 4,135,339
Actuarial Accrued Liability	4,590,398	5,135,109	3,834,607
Unfunded (Over Funded) AAL	(686,817)	(354,475)	(300,732)
Funded Ratio	115%	107%	108%
Covered Payroll	1,901,809	2,008,592	1,148,953
UAAL as a Percentage of Covered Payroll	0%	0%	0%

NOTE F - CAPITAL ASSETS:

A summary of capital assets is as follows:

	Beginning Balance	Increases	Adjustments /Decreases	Ending Balance
Assets being depreciated:				
Other capital assets:				
Furniture & equipment	\$ 208,630	\$ 85,679	\$ 22,690	\$ 316,999
Vehicles	121,613	-	(22,690)	98,923
Subtotal	330,243	85,679	-	415,922
Accumulated depreciation:				
Furniture & equipment	192,840	13,456	9,074	215,370
Vehicles	76,532	18,220	(9,074)	85,678
Subtotal	269,372	31,676	-	301,048
Net Capital Assets Being Depreciated	\$ 60,871	\$ 54,003	\$ -	\$ 114,874
Depreciation Expense:				
Health and Welfare			\$ 31,676	

NOTE G - CONTINGENT LIABILITIES:

The Chippewa County Health Department has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the Health Department. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the Health Department at September 30, 2004.

NOTE H - FUND BALANCE DESIGNATED:

The General Fund balance is designated by \$20,000 to reflect monies designated for Hospice, \$37,221 to reflect monies designated for furniture and leasehold improvements, by \$22,295 to reflect funds raised for maternal and infant support and breast cancer support, \$4,215 designated for continuing Public Health Education, and \$350 designated petty cash.

NOTE I - RELATED PARTY TRANSACTION:

The Health Department leases its building space from the County Building Authority. The rent is currently \$11,200 per month. The County appropriates funds to the department on an annual basis.

NOTE J - ACCOUNTS RECEIVABLE:

Accounts receivable of the Health Department by program as of September 30, 2004, is summarized as follows:

	Gross Accounts Receivable 09/30/04	Contractual Allowances	Credit Allowance	Net Accounts Receivable 09/30/04
Environmental Health	\$ 5,319	\$ -	\$ -	\$ 5,319
Public Health	100,784	-	(1,070)	99,714
Home Health	<u>656,880</u>	<u>(22,273)</u>	<u>(53,770)</u>	<u>580,837</u>
TOTALS	<u>\$ 762,983</u>	<u>\$ (22,273)</u>	<u>\$ (54,840)</u>	<u>\$ 685,870</u>

Chippewa County Health Department

Notes to Financial Statements
September 30, 2004

NOTE K - DUE FROM GOVERNMENTAL AGENCIES:

Various government agencies reimburse the Health Department for services rendered or based on expenditures for public health programs.

At September 30, 2004, due from governmental agencies consists of the following:

Due from Schools	\$ 8,630
Due from State of Michigan	46,401
Due from Other Agencies	20,705
Due from Chippewa County	15,350
Due from Cost Settlement	114,361
Other	<u>3,297</u>
TOTAL	<u>\$ 208,744</u>

NOTE L - COMPENSATED ABSENCES:

The Health Department has a contingent liability for accumulated vested vacation benefits and accumulated sick leave benefits of its employees. As of September 30, 2004, the accumulated vacation and sick leave benefits were as follows:

<u>Vacation</u>	<u>Sick Leave</u>	<u>Compensation Time</u>	<u>Total</u>
<u>\$ 81,745</u>	<u>\$ 159,266</u>	<u>\$ 2,975</u>	<u>\$ 243,986</u>

Vacation and Sick Leave Policy – Vacation days earned depend on date of hire. Hired prior to January 1, 2000, you can earn a maximum of 27 days per year. Hired after January 1, 2000, the maximum cannot exceed 20 days.

Sick leave cannot exceed 29 days (232 hours). Employees can carryover up to 168 hours at the beginning of each calendar year, at which time they are given an additional annual allotment of 64 hours (8 days). They get paid at the end of the calendar year for any unused hours in excess of 168. This changes the calculation of the 50% payout amount for 5-9 years employment.

NOTE M - LEASE COMMITMENTS:

The Chippewa County Health Department currently leases space from the County Building Authority under a signed operating lease arrangement. The building rent is currently \$11,200 per month.

The Department also rents space under a cancelable lease from the Rudyard Cooperative for \$350 a month in Kinross.

NOTE M - LEASE COMMITMENTS: (Continued)

The Department also rents equipment from Hommed, LLC for \$4,590 a month. Some portions of the lease are reimbursed.

The Department entered into several capital lease obligations as listed below:

	Capital		
	CMHC	Phone Equipment	Copier Equipment
2005	\$ 18,588	\$ 12,101	\$ 3,010
2006	<u>16,692</u>	<u>12,101</u>	<u>1,757</u>
Total	<u>\$ 35,280</u>	<u>\$ 24,202</u>	<u>\$ 4,767</u>
Interest	\$ 1,947	\$ 1,706	\$ 454
% Interest	6%	7.09%	12.25%
Payment	\$ 1,549	\$ 1,008	251

CAPITAL

The Department has executed capital lease obligations for phone, computer, and copier equipment. These leases are noncancelable and contain a purchase option upon expiration of the lease.

NOTE N - ADVANCES PAYABLE:

The State of Michigan has advanced monies to assist the Health Department's cash flow. This amount is payable on demand.

At September 30, 2004, advances payable consists of the following:

Radon-Non MDPH	\$ 4,000
Malph-Non MDPH	<u>548</u>
TOTAL	<u>\$ 4,548</u>

Chippewa County Health Department

**Notes to Financial Statements
September 30, 2004**

NOTE O - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

The federal expenditures of the Department are included with the schedule of expenditures of federal awards of Chippewa County, Michigan.

NOTE P - POST-EMPLOYMENT BENEFITS:

The Department provides post retirement health care insurance to all retired employees of the government pursuant to the terms of personnel policy by a group insurance plan.

The Department funds 100% of the premiums of the policies on a pay-as-you-go basis. During 2004, the County paid hospitalization premiums for qualified individuals. Actuarial valuations of estimated future cost were not available.

Required Supplementary Information

Chippewa County Health Department

Budgetary Comparison Schedule General Fund For the Year Ended September 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
				Positive
				(Negative)
Budgetary fund balance, October 1, 2003	\$ 1,300,698	\$ 1,300,698	\$ 1,300,698	\$ -
Resources (inflows):				
Fees and Collections	3,062,272	3,553,340	3,614,286	60,946
Cost Settlements	88,000	100,000	142,107	42,107
Other Funding	122,215	118,312	68,366	(49,946)
State Funding	449,409	610,283	760,181	149,898
State - Cost Sharing	280,564	280,204	279,554	(650)
County Appropriation	214,879	154,687	167,762	13,075
Contracts and Reimbursements	55,343	145,663	165,900	20,237
Lease Proceeds	-	-	51,022	51,022
Amounts available for appropriation	4,272,682	4,962,489	5,249,178	286,689
Charges to appropriation (outflows):				
Salaries and Wages	2,229,242	2,440,896	2,368,482	72,414
Fringes	801,138	930,173	913,424	16,749
Supplies and Materials	281,827	353,132	499,774	(146,642)
Training	9,197	9,748	12,553	(2,805)
Consultant Services	41,700	56,744	53,423	3,321
Contractual	372,269	466,378	464,003	2,375
Communications	56,845	65,940	62,427	3,513
Travel	106,915	127,143	122,970	4,173
Space	194,798	194,761	182,645	12,116
ADP System	28,026	36,786	35,579	1,207
Miscellaneous	150,725	280,788	289,639	(8,851)
Total charges to appropriations	4,272,682	4,962,489	5,004,919	(42,430)
Budgetary fund balance, September 30, 2004	\$ 1,300,698	\$ 1,300,698	\$ 1,544,957	\$ 244,259

Other Supplementary Information

Chippewa County Health Department

General Fund Statement of Revenues, By Program Budget and Actual For the Year Ended September 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Administration	\$ 25,650	\$ 82,821	\$ 57,171 *
General E.H. Services	-	(30)	(30)
Shelter Management	2,400	2,706	306
Radon Grant	3,178	3,180	2
Community Health & Safety	8,574	4,616	(3,958)
Food	147,732	141,427	(6,305)
Waste Management	141,741	148,376	6,635
Water Quality	116,603	118,193	1,590
Clean Beaches	11,817	9,130	(2,687)
Surface Water Inland Lakes	17,802	11,971	(5,831)
Ordinance	225	525	300
Immunization	162,198	313,268	151,070 **
STD	29,128	27,577	(1,551)
Other Comm Disease	96,702	96,785	83
Aids	11,297	11,300	3
Bioterrorism	226,500	226,720	220
BCCP Combined	59,065	62,820	3,755
FP/BCCP Joint Coordination	3,000	3,018	18
CSHCS	14,801	15,708	907
Family Planning	171,053	190,519	19,466
Healthy Kids	17,645	21,964	4,319
Well Women	18,825	19,183	358
Lamaze	9,517	3,035	(6,482)
M&CH, MSSP, & ISSP	356,038	403,858	47,820
Hearing	18,479	18,475	(4)
Vision	15,025	14,602	(423)
WIC & WIC Lactation	175,673	175,623	(50)
EPSTD Clinic	55,000	61,293	6,293
Tobacco Reduction	41,200	39,544	(1,656)
Car Seat Grant	2,400	2,321	(79)
SIG Grant	27,000	27,063	63
School/Nurse	50,024	50,394	370
General Nursing	100	-	(100)
Private Duty Programs	405,150	404,331	(819)
Home Health	2,165,711	2,120,585	(45,126)
Hospice	355,236	416,277	61,041
TOTAL REVENUES	\$ 4,962,489	\$ 5,249,178	\$ 286,689

* \$51,022 of the variance reflects the value of a capitalized lease entered into for the computer system.

** \$148,142 of the variance reflects federally funded vaccines supplied through the State of Michigan. These are recorded as an equal revenue and expense in the general ledger.

Chippewa County Health Department

General Fund Statement of Expenditures, By Program Budget and Actual For the Year Ended September 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES:	\$ 25,670	\$ 78,769	\$ (53,099) *
Administration	6,792	5,169	1,623
Shelter Management	4,627	4,729	(102)
Radon Grant	10,770	10,519	251
Community Health & Safety	415	415	-
Animal Control	166,543	144,888	21,655
Food	199,710	203,773	(4,063)
Waste Management	155,952	142,538	13,414
Water Quality	13,807	8,114	5,693
Clean Beaches	27,586	12,651	14,935
Surface Water Inland Lakes	3,464	1,842	1,622
Tattoo Ordinance	845	1,066	(221)
E.H. Administration	188,669	341,966	(153,297) **
Immunization	34,304	31,813	2,491
STD	112,828	107,712	5,116
Other Comm Disease	21,680	19,430	2,250
Aids	226,500	226,720	(220)
Bioterrorism	59,239	59,572	(333)
BCCP Combined	3,699	3,299	400
FP/BCCP Joint Coordination	-	1,065	(1,065)
Colorectal Screening	17,411	16,990	421
CSHCS	73	105	(32)
Part H	175,379	166,166	9,213
Family Planning	41,246	38,811	2,435
Healthy Kids	20,825	19,380	1,445
Well Women	13,724	11,216	2,508
Lamaze	420,885	397,720	23,165
M&CH, MSSP, & ISSP	21,534	19,474	2,060
Hearing	23,722	21,233	2,489
Vision	208,925	213,452	(4,527)
WIC & WIC Lactation	62,035	61,298	737
EPSTD Clinic	-	681	(681)
EPSTD Outreach	41,202	40,284	918
Tobacco Reduction	2,787	2,766	21
Car Seat Grant	27,000	27,063	(63)
SIG Grant	55,051	52,389	2,662
School Nurse	18,737	16,818	1,919
Community Health Assessment	-	5	(5)
Worksite Wellness	211	558	(347)
General Nursing	-	128	(128)
Other Misc PH Programs	400,852	391,181	9,671
Private Duty Programs	1,865,277	1,827,866	37,411
Home Health	282,516	273,285	9,231
Hospice			
TOTAL EXPENDITURES	\$ 4,962,492	\$ 5,004,919	\$ (42,427)

* \$51,022 of the variance reflects the value of a capitalized lease entered into for the computer system.

** \$148,142 of the variance reflects federally funded vaccines supplied through the State of Michigan. These are recorded as and equal revenue and expense in the general ledger.

Chippewa County Health Department

Administrative Programs Statement of Revenues and Expenditures Budget and Actual For the Year Ended September 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Lease Proceeds	-	51,022	\$ 51,022
Fees and collections	700	715	15
Local funds	24,950	31,084	6,134
Total Revenues	25,650	82,821	57,171
EXPENDITURES:			
Salaries and wages	330,580	330,212	368
Fringe benefits	201,147	203,408	(2,261)
Supplies and materials	53,312	58,304	(4,992)
Training	2,050	1,985	65
Consultant services	17,250	16,511	739
Contractual	78,204	77,574	630
Communications	18,420	17,349	1,071
Travel	(21,150)	(23,197)	2,047
Space	80,066	75,786	4,280
ADP system	18,606	12,229	6,377
Other	107,928	72,004	35,924
Overhead	(860,743)	(833,005)	(27,738)
Debt service	-	18,588	(18,588)
Capital Outlay	-	51,022	(51,022)
Total Expenditures	25,670	78,770	(53,100)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	\$ (20)	\$ 4,051	\$ 4,071

Chippewa County Health Department

Environmental Health Programs Statement of Revenues and Expenditures Budget and Actual For the Year Ended September 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Fees and collections	\$ 183,981	\$ 182,390	\$ (1,591)
Other funding	31,544	24,722	(6,822)
Local funds	68,419	68,419	-
State sources	23,662	22,747	(915)
State - cost sharing	142,466	141,816	(650)
Total Revenues	450,072	440,094	(9,978)
EXPENDITURES:			
Salaries and wages	293,452	264,379	29,073
Fringe benefits	104,533	103,163	1,370
Supplies and materials	10,014	4,091	5,923
Training	728	993	(265)
Contractual	10,200	8,505	1,695
Communications	4,600	4,893	(293)
Travel	25,241	21,727	3,514
Space	13,394	12,417	977
ADP system	180	115	65
Other	7,522	4,017	3,505
Overhead	120,647	111,402	9,245
Total Expenditures	590,511	535,702	54,809
EXCESS REVENUES OVER (UNDER) EXPENDITURES	\$ (140,439)	\$ (95,608)	\$ 44,831

Chippewa County Health Department

Home Health Programs Statement of Revenues and Expenditures Budget and Actual For the Year Ended September 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Fees and collections	\$ 2,894,384	\$ 2,925,703	\$ 31,319
Local funds	31,713	31,280	(433)
Cost settlements	-	(15,789)	(15,789)
Total Revenues	2,926,097	2,941,194	15,097
EXPENDITURES:			
Health and Welfare:			
Salaries and wages	1,019,111	994,215	24,896
Fringe benefits	356,202	342,964	13,238
Supplies and materials	172,100	169,722	2,378
Training	5,100	5,995	(895)
Consultant services	24,594	23,735	859
Contractual	316,773	320,176	(3,403)
Communications	25,000	25,492	(492)
Travel	94,250	97,872	(3,622)
Space	28,120	26,019	2,101
ADP system	18,000	15,119	2,881
Other	72,470	65,725	6,745
Overhead	416,925	405,299	11,626
Total Expenditures	2,548,645	2,492,333	56,312
EXCESS REVENUES OVER (UNDER) EXPENDITURES	\$ 377,452	\$ 448,861	\$ 71,409

Chippewa County Health Department

Public Health Programs Statement of Revenues and Expenditures Budget and Actual For the Year Ended September 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Fees and collections	\$ 474,275	\$ 501,652	\$ 27,377
Local funds	206,215	202,880	(3,335)
State sources	586,621	737,433	150,812
State - cost sharing	137,738	137,738	-
Cost settlements	100,000	157,896	57,896
Other grants & projects	55,821	47,470	(8,351)
Total Revenues	1,560,670	1,785,069	224,399
EXPENDITURES:			
Salaries and wages	797,753	779,676	18,077
Fringe benefits	268,291	263,888	4,403
Supplies and materials	117,706	267,657	(149,951)
Training	1,870	3,581	(1,711)
Consultant services	14,900	13,178	1,722
Contractual	61,201	57,748	3,453
Communications	17,920	14,692	3,228
Travel	28,802	26,568	2,234
Space	73,181	68,424	4,757
ADP Systems	-	8,116	(8,116)
Other	47,657	43,625	4,032
Capital Outlay	45,216	34,657	10,559
Overhead	323,166	316,304	6,862
Total Expenditures	1,797,663	1,898,114	(100,451)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	\$ (236,993)	\$ (113,045)	\$ 123,948

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Health
Chippewa County Health Department
Sault Ste. Marie, MI 49783

We have audited the financial statements of the governmental activities and major fund of the Chippewa County Health Department (a component unit of Chippewa County), as of and for the year ended September 30, 2004, which collectively comprise the Chippewa County Health Department's basic financial statements and have issued our report thereon, dated November 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Chippewa County Health Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Chippewa County Health Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*.

Conclusion

This report is intended solely for the information and use of the Board of Health and management, and federal awarding agencies, pass-through entities and others within the organization. It is not intended to be and should not be used by anyone other than these specified parties.

Anderson Tackman & Co P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 19, 2004



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
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DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Members of the Board of Health
Chippewa County Health Department
Sault Ste. Marie, MI 49783

We have audited the component unit financial statements of the Chippewa County Health Department for the year ended September 30, 2004, and have issued our reports thereon dated November 19, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities or illegal acts including fraud and defalcations may exist and not be detected by us.

As part of our audit, we considered the internal control of the Chippewa County Health Department. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Chippewa County Health Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Chippewa County Health Department are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2004. We noted no transactions entered into by the Chippewa County Health Department during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing these historical data provided by management and using this data to compute the estimates.

The allowance for uncollectible accounts receivable is an estimate. It was calculated based on historical collection results. Cost report settlements are also estimates based on preliminary cost report calculations. Lives of fixed assets are estimated by management.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Chippewa County Health Department's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgement, none of the adjustments we proposed, whether recorded or unrecorded by Chippewa County Health Department, either individually or in the aggregate, indicate matters that could have a significant effect on the Chippewa County Health Department's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Chippewa County Health Department or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Chippewa County Health Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the information and use of management, the Board of Health, state awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Tackman & Co. PLC

**Anderson, Tackman & Company, PLC
Certified Public Accountants**

November 19, 2004